

AUDIT REPORT

LEFLORE COUNTY CONSOLIDATED RURAL WATER DISTRICT #1

LEFLORE COUNTY, OKLAHOMA

JUNE 30, 2013

KERSHAW CPA & ASSOCIATES, PC

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LEFLORE COUNTY CONSOLIDATED RURAL WATER DISTRICT #1
LEFLORE COUNTY, OKLAHOMA
JUNE 30, 2013

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LEFLORE COUNTY CONSOLIDATED RURAL WATER DISTRICT #1
LEFLORE COUNTY, OKLAHOMA
JUNE 30, 2013

BOARD OF DIRECTORS

<u>NAME</u>	<u>POSITION</u>
PAUL MODE	CHAIRMAN
ROCCO LAROSA	VICE-CHAIRMAN
WEYLIN GROOM	SECRETARY
BRENT THOMPSON	MEMBER
RON DAMERON	MEMBER

STAFF

DREW CHESHER	MAINTENANCE OPERATOR
BETH PECK	MANAGER

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Leflore County Consolidated Rural Water District #1
Leflore County, Oklahoma

Report on the Financial Statements

We have audited the accompanying modified cash basis financial statements of the Leflore County Consolidated Rural Water District #1, as of and for the fiscal year ended June 30, 2013, and the related notes to the financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting described in Note 1. This includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and in accordance with Oklahoma Statutes. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used, and the reasonableness of significant accounting estimates made, by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Basis for Qualified Opinion

The modified cash basis of accounting requires that items, having substantial support in U.S. generally accepted accounting principles, such as capitalizing assets at historical cost and recording depreciation, be recorded in the financial statements. The District has not maintained accurate capital asset records to support the historical cost of past capital asset purchases and the related depreciation. Documentation supporting historical cost and depreciation was not readily available for our review. The amount by which this departure would affect the assets, net position, and expenses of the District is not readily determinable.

Qualified Opinion

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statements referred to above present fairly, in all material respects, the modified cash basis financial position of the Leflore County Consolidated Rural Water District #1, Leflore County, Oklahoma, as of June 30, 2013, and the changes in modified cash basis financial position thereof for the year then ended in conformity with the basis of accounting described in Note 1.

Other Matters

Supplementary and Other Information

The introductory section listed in the accompanying table of contents is presented for the purpose of additional analysis and is not a required part of the basic financial statements of the District. Such additional information has not been subjected to the auditing procedures applied in our audit of the basic financial statements, and accordingly, we do not express an opinion or provide an assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated October 3, 2013, on our consideration of the Leflore County Consolidated Rural Water District #1's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in compliance with *Government Auditing Standards* in considering Leflore County Consolidated Rural Water District #1's internal control over financial reporting and compliance.

Basis of Accounting

We draw attention to Note 1 of the financial statements that describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis

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of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Kershaw CPA & Associates, P.C.

Kershaw CPA & Associates, PC

October 3, 2013

EXHIBIT A

LEFLORE COUNTY CONSOLIDATED RURAL WATER DISTRICT #1
LEFLORE COUNTY, OKLAHOMA
STATEMENT OF NET POSITIN - MODIFIED CASH BASIS
JUNE 30, 2013

	Total 2013	Total (Memo Only) 2012
<u>ASSETS</u>		
<u>Current Assets:</u>		
<u>Cash and Cash Equivalents:</u>		
Operation & Maintenance Account	\$ 155,107	\$ 111,220
Deposit Account	26,487	23,150
<u>Investments (Restricted):</u>		
Debt Service Fund - 1991 Series	2,014	1,006
DS Reserve Fund - 1991 Series	17,001	18,002
Debt Service Fund - 1993 Series	687	314
DS Reserve Fund - 1993 Series	6,726	7,072
Total Current Assets	<u>208,021</u>	<u>160,764</u>
<u>Capital Assets:</u>		
Water System	1,481,965	1,327,377
Water System - Monroe	361,424	361,424
Less: Accumulated Depreciation	<u>(134,281)</u>	<u>(110,890)</u>
Total Capital Assets	<u>1,709,108</u>	<u>1,577,911</u>
TOTAL ASSETS	<u><u>\$ 1,917,129</u></u>	<u><u>\$ 1,738,674</u></u>
<u>LIABILITIES</u>		
<u>Current Liabilities:</u>		
Payroll Taxes Payable	\$ 758	\$ 1,232
Refundable Water Deposits	26,894	23,585
Current Portion of Long-Term Debt	<u>47,670</u>	<u>29,776</u>
Total Current Liabilities	<u>75,322</u>	<u>54,593</u>
<u>Long-Term Liabilities:</u>		
Notes Payable - Oklahoma Water Resources Board	294,187	318,455
Note Payable - CRG, Inc.	-	58,180
Note Payable - CNB	-	8,384
Note Payable - Arvest	115,780	-
Less: Current Portion of Long-Term Debt	<u>(47,670)</u>	<u>(29,776)</u>
Total Long-Term Liabilities	<u>362,297</u>	<u>355,243</u>
TOTAL LIABILITIES	<u>437,620</u>	<u>409,836</u>
<u>NET POSITION</u>		
Net investment in capital assets	1,299,141	1,192,892
Restricted for debt services	26,427	26,394
Restricted for refundable deposits	26,487	23,150
Unrestricted	<u>127,454</u>	<u>86,402</u>
TOTAL NET POSITION	<u>1,479,509</u>	<u>1,328,838</u>
TOTAL LIABILITIES & NET POSITION	<u><u>\$ 1,917,129</u></u>	<u><u>\$ 1,738,674</u></u>

See Accountant's Audit Report & Notes Which Accompany These Financial Statements

EXHIBIT B

LEFLORE COUNTY CONSOLIDATED RURAL WATER DISTRICT #1
 LEFLORE COUNTY, OKLAHOMA
 STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
 - MODIFIED CASH BASIS -
 FOR THE FISCAL YEAR ENDED JUNE 30, 2013

	Total FYE 6/30/2013	Total (Memo Only) FYE 6/30/2012
<u>Operating Revenues:</u>		
Water Sales	\$ 412,906	\$ 423,781
Memberships	3,750	4,928
Other Income	1,289	770
Total Operating Revenues	<u>417,945</u>	<u>429,479</u>
<u>Operating Expenses:</u>		
Water Purchased	98,782	108,372
Utilities	11,418	14,031
Contract Labor	9,700	7,675
Payroll Expenses	31,577	31,803
Auto Expenses	9,885	9,578
Supplies	33,424	38,225
Licenses and Permits	46	108
Insurance	7,453	6,740
Maintenance	5,296	8,841
Office and Bookkeeping	19,759	19,362
Meter Reading	-	-
Accounting Fees	1,900	1,600
Trustee Fees	2,105	2,162
Depreciation Expense	23,391	15,508
Other Expenses	1,327	1,569
Total Operating Expenses	<u>256,063</u>	<u>265,575</u>
Operating Income (Loss)	161,882	163,905
<u>Non-Operating Revenues (Expenses):</u>		
Interest Income	296	398
Interest Expense	(8,339)	(10,641)
Total Non-operating Revenues (Expenses)	<u>(8,043)</u>	<u>(10,242)</u>
Net Income (Loss) Before Contributions	153,839	153,662
Capital Contributions - Grants	-	14,958
Change in Net Position	153,839	168,620
Total Net Position - Beginning	1,328,838	1,160,219
Total Net Position - Prior Year Adjustment	(3,168)	(1)
Total Net Position - Ending	<u>\$ 1,479,509</u>	<u>\$ 1,328,838</u>

See Accountant's Audit Report & Notes Which Accompany These Financial Statements

EXHIBIT C

LEFLORE COUNTY CONSOLIDATED RURAL WATER DISTRICT #1
LEFLORE COUNTY, OKLAHOMA
STATEMENT OF CASH FLOWS - MODIFIED CASH BASIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

	June 30, 2013	Memorandum Only June 30, 2012
<u>Cash Flows from Operating Activities:</u>		
Receipts from Customers	\$ 417,945	\$ 429,479
Payments to Suppliers & Laborers for Goods & Services	(233,146)	(249,406)
Receipts of Customer Utility Deposits, Net of Refunds	3,310	2,830
Net Cash Provided (Used) by Operating Activities	188,109	182,904
<u>Cash Flows from Capital & Related Financing Activities:</u>		
Additions to Capital Assets	(154,588)	(204,114)
Grant Income	-	14,958
Loan Proceeds	115,780	11,040
Principal paid on Debt	(90,832)	(25,482)
Interest paid on Debt	(8,339)	(10,641)
Net Cash Provided (Used) by Capital & Related Financing Activities	(137,979)	(214,239)
<u>Cash Flows from Capital & Related Investing Activities:</u>		
Increase in Investments	296	398
Net Cash Provided (Used) by Investing Activities	296	398
Net Increase (Decrease) in Cash and Cash Equivalents	50,426	(30,937)
Cash & Cash Equivalents, Beginning of Year	160,764	191,701
Cash & Cash Equivalents, Prior Year Adjustment	(3,168)	-
Cash & Cash Equivalents, End of Year	\$ 208,021	\$ 160,764
<u>Reconciliation of operating income (loss) to net cash provided operating activities:</u>		
Operating Income (Loss)	\$ 161,882	\$ 163,905
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities		
Depreciation	23,391	15,508
Increase(Decrease) in Accounts Payable	(474)	661
Increase(Decrease) in Refundable Deposits	3,310	2,830
Net Cash Provided (Used) by Operating Activities	\$ 188,109	\$ 182,904

See Accountant's Audit Report & Notes Which Accompany These Financial Statements

LEFLORE COUNTY CONSOLIDATED RURAL WATER DISTRICT #1
LEFLORE COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

As discussed further in Note 1.C, these financial statements are presented on a modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP) established by the Governmental Accounting Standards Board (GASB). These modified cash-basis financial statements generally meet the presentation and disclosure requirements applicable to GAAP, in substance, but are limited to the elements presented in the financial statements and the constraints of the measurement and recognition criteria of the modified cash basis of accounting.

A. Reporting Entity

On November 13, 2006, the Board of County Commissioners of Leflore County, Oklahoma ordered that Leflore County Rural Water District #9 and Leflore County Rural Water District #12 were to be consolidated into a single water district under the name of "CONSOLIDATED RURAL WATER DISTRICT #1, LEFLORE COUNTY, OKLAHOMA." The consolidated district shall assume and become legally liable for all of the obligations of the districts consolidated into such single district. On December 7, 2006, Leflore County RWD #9's assets, liabilities and equity were transferred to the new consolidated district.

Leflore County Rural Water District #12 (the District), organized as a non-profit organization, adopted a modified cash basis of accounting as reflected in these financial statements. The activities of the District constitute the entire reporting entity. There are no component or oversight units. The District is a political subdivision of the state of Oklahoma.

B. Basis of Presentation

The accounts of the District are organized on the basis of proprietary fund type, specifically an enterprise fund. The activities of this fund are accounted for with a separate set of self-balancing accounts that comprise the District's assets, liabilities, net assets, revenues and expenses. Enterprise Funds account for activities (1) that are financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity; or (2) that are required by laws or regulations that the activity's costs of providing services, including capital costs (such as depreciation or debt service), be recovered with fees and charges, rather than with taxes or similar revenues; or (3) that the pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs (such as depreciation or debt service).

C. Measurement Focus and Basis of Accounting

Measurement Focus

LEFLORE COUNTY CONSOLIDATED RURAL WATER DISTRICT #1
LEFLORE COUNTY, OKLAHOMA
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JUNE 30, 2013

The District utilizes an economic resources measurement focus within the limitations of the modified cash basis of accounting. The accounting objectives of this measurement focus are the determination of operating income, changes in net position (or cost recovery), net financial position, and cash flows. All assets, deferred outflows, liabilities, and deferred inflows (whether current or noncurrent or financial or nonfinancial) associated with their activities are generally reported within the limitations of the modified cash basis of accounting.

Basis of Accounting

The financial statements are presented on a modified cash basis of accounting, which is a basis of accounting other than GAAP as established by GASB. This basis of accounting involves modifications to the cash basis of accounting to report in the statements of net position cash transactions or events that provide a benefit or result in an obligation that covers a period greater than the period in which the cash transaction or event occurred. Such reported balances include investments, capital assets and related depreciation, and short-term and long-term liabilities arising from cash transactions or events.

This modified cash basis of accounting differs from GAAP primarily because certain assets and their related revenues (such as accounts receivable and revenue billed or provided services not yet collected and other accrued revenue and receivables) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid and other accrued expenses and liabilities) are not recorded in these financial statements. In addition, other economic assets, deferred outflows, liabilities, and deferred inflows that do not arise from a cash transaction or event are not reported, and the measurement of reported assets and liabilities does not involve adjustment to fair value.

If the District utilized the basis of accounting recognized as generally accepted in the United States, the fund financial statements for proprietary fund types would use the accrual basis of accounting.

D. Budgetary Data

A budget has not been legally adopted for the District and subsequently a budgetary comparison is not presented.

E. Financial Position

Cash & Cash Equivalents

For the purpose of financial reporting, "cash & cash equivalents" includes all demand and savings accounts and certificates of deposit or short-term investments with an original maturity of three months or less.

LEFLORE COUNTY CONSOLIDATED RURAL WATER DISTRICT #1
LEFLORE COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

Capital Assets

Capital assets have been combined and recorded at cost in the financial statements and are not depreciated.

Long-Term Debt

Long-term debt is reported at face value, net of applicable discounts and deferred loss on refunding. Costs related to the issuance of debt are deferred and amortized over the lives of various debt issues.

Equity Classification

Equity is classified as net position and displayed in three components:

1. *Net investment in capital assets* – Consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvements of those assets and adjusted for any deferred inflows and outflows of resources attributable to capital assets and related debt.
2. *Restricted* - Consists of restricted assets reduced by liabilities and deferred inflows or resources related to those assets, with restriction constraints placed on the use either by (a) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or (b) law through constitutional provisions or enabling legislation.
3. *Unrestricted* – Net amount of assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment of capital assets or the restricted component of net position.

It is the District's policy to first use restricted net resources prior to the use of unrestricted net resources when an expense is incurred for purposes for which both restricted and unrestricted net resources are available.

F. Revenues, expenditures & expenses

Operating revenues and expenses for proprietary funds result from providing services and producing and delivering goods and/or services. They also include all revenues and expenses not related to capital and related financing, noncapital financing, or investing activities.

The major source of revenue is from the sale of water. Other revenues are composed primarily of membership fees, late charges, and interest income.

LEFLORE COUNTY CONSOLIDATED RURAL WATER DISTRICT #1
LEFLORE COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

G. Income Taxes

The District is exempt from federal and state income taxes.

H. Memorandum Only

The "Memorandum Only" captions above the total columns mean that totals are presented for overview information purposes only.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

As a local government unit, the District is subject to various federal, state, and local laws and contractual regulations.

Finance-related Legal & Contractual Provisions

Leflore County Consolidated Rural Water District #1 has pledged its revenues from operations and must comply with requirements as defined in the loan agreement with the Oklahoma Water Resources Board for the promissory notes described in Note 6. At June 30, 2012, the District satisfactorily met the Debt Service requirement and the Net Revenue requirement.

Deficit Fund Balance or Retained Earnings

As indicated in the financial statements, there are no fund balance or retained earnings deficits for the District for this fiscal year.

NOTE 3 - CASH AND INVESTMENTS

Custodial Credit Risk

At June 30, 2013, the District held deposits of approximately \$208,021 at financial institutions. The District's cash deposits, including interest-bearing certificates of deposit are covered by Federal Depository Insurance (FDIC) or direct obligation of the U.S. Government insured or collateralized with securities held by the District or by its agent in the District's name.

Investment Interest Rate Risk

The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Investment Credit Risk

The City has no policy that limits its investment choices other than the limitation of state law as follows:

LEFLORE COUNTY CONSOLIDATED RURAL WATER DISTRICT #1
LEFLORE COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

- a. Direct obligations of the U.S. Government, its agencies and instrumentalities to which the full faith and credit of the U.S. Government is pledged, or obligations to the payment of which the full faith and credit of the State is pledged.
- b. Certificates of deposits or savings accounts that are either insured or secured with acceptable collateral with in-state financial institutions, and fully insured certificates of deposit or savings accounts in out-of-state financial institutions.
- c. With certain limitation, negotiable certificates of deposit, prime bankers' acceptances, prime commercial paper and repurchase agreements with certain limitations.
- d. County, municipal or school district tax supported debt obligations, bond or revenue anticipation notes, money judgments, or bond or revenue anticipation notes of public trusts whose beneficiary is a county, municipality or school district.
- e. Notes or bonds secured by mortgage or trust deed insured by the Federal Housing Administrator and debentures issued by the Federal Housing Administrator, and in obligations of the National Mortgage Association.
- f. Money market funds regulated by the SEC and in which investments consist of the investments mentioned in the previous paragraphs (a.-d.).

NOTE 4 - RESTRICTED ASSETS

Under the provisions of the OWRB Loan Agreements, the District is required to establish, fund and maintain a debt service fund account and a debt reserve account with the trustee bank for each of its two loans. As of June 30, 2013, the balance of the debt service fund for the 1991 loan was \$2,013.57 and the balance of the debt reserve fund was \$17,000.94. As of June 30, 2013, the balance of the debt service fund for the 1993 loan was \$686.81 and the balance of the debt reserve fund was \$6,725.74. The Debt Service Fund accounts are funded monthly by the District in an amount sufficient to pay the upcoming semi-annual principal and interest payments on the OWRB loans.

NOTE 5 - CAPITAL ASSETS

Capital asset activity, resulting from the modified cash basis transactions, for the fiscal year ended June 30, 2013, was as follows:

	Balance at June 30, 2012	Additions	Deductions	Balance at June 30, 2013
Water System	\$ 1,327,377	\$ 158,088	\$ (3,500)	\$ 1,481,965
Water System - Monroe	361,424	-	-	361,424
Subtotal	1,688,801	158,088	(3,500)	1,843,389
Less: Accum. Depr.	(110,890)	(23,391)	-	(134,281)
Total Capital Assets (Net of Depreciation)	<u>\$ 1,577,911</u>	<u>\$ 134,697</u>	<u>\$ (3,500)</u>	<u>\$ 1,709,108</u>

The current year additions included distribution system improvements, a dump truck, pressure washer, automatic meters, & Pump Station Improvements.

LEFLORE COUNTY CONSOLIDATED RURAL WATER DISTRICT #1
LEFLORE COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 6 - LONG-TERM DEBT

Oklahoma Water Resources Board

The District has two loans with the Oklahoma Water Resources Board (OWRB). The first loan was for an original amount of \$200,000 for a period of 30 years with a final payment date of August 15, 2019. The interest rate is being reset every six months on March 1 and September 1 of each year. The interest rate for the six-month period ending August 31, 2013 was set at 1.560%.

The second loan was for an original amount of \$80,000 for a period of 30 years with a final payment date of September 15, 2022. The interest rate is being reset every six months on March 1 and September 1 of each year. The interest rate for the six-month period ending August 31, 2013 was set at 1.560%.

As indicated in the "Trust Agreement," JP Morgan, acting as "Local Trustee" for the borrower, will receive monthly loan payments from the borrower on or before the 15th of every month. On the 15th of February and August of each year, the local Trustee shall remit to OWRB's Trustee the required semi-annual loan payments. The OWRB determines the semi-annual payments and notifies the borrower and the local Trustee on or about March 1 and September 1 of each year.

Effective February 26, 2009, the payment mode for Variable Rate Borrowers has changed from a semi-annual to a quarterly basis. OWRB made this change as a result of market conditions and to take advantage of low short-term interest rates.

Effective December 7, 2006, the Leflore County Consolidated Rural Water District #1 assumed control of Leflore County Rural Water District #9's OWRB loan. Leflore County RWD #9 borrowed \$237,000.00 from the Oklahoma Water Resources Board (OWRB) for water system improvements, during 2005. This note is for a period of 20 years with a final payment date of March 15, 2025. The interest rate is 3.000% with an administrative fee of 0.50%. The OWRB has an amortization schedule for the semi-annual payments which calls for a payment of \$7,640.30 on 9/15/05, \$8,326.74 on 3/15/06, \$7,964.43 on 9/15/06 and equal semi-annual payments of \$8,326.74 thereafter.

During the fiscal year ending June 30, 2011, the District entered into a loan agreement with Community Resource Group, Inc. for \$139,300.00 to be used to pay engineering fees for a system improvement project. The loan is for a term of 2 years with an interest rate of 4.9% with interest only payments until maturity when the principal balance will be due and payable. Total proceeds received on this loan were \$58,180.00. At fiscal yearend, the loan has been paid off.

During the fiscal year ending June 30, 2012, the District entered into a loan agreement with Central National Bank for \$11,040.00 with collateral for loan being the new 2008 Chevy pickup which was purchased in December 2011. The loan is for a term of 2 years with an interest rate of 5.750% with monthly payments of \$487.19 until maturity.

LEFLORE COUNTY CONSOLIDATED RURAL WATER DISTRICT #1
LEFLORE COUNTY, OKLAHOMA
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On June 10, 2013, the District entered into a lease purchase agreement with Arvest Bank for \$115,780.00 to purchase automatic meters. The agreement is for a term of 5 years with an interest rate of 2.69% with annual payments of \$25,081.78 due June 10th of each year until maturity on June 10, 2018.

Changes in Long-Term Debt

The following is a summary of changes in long-term debt for the year ended June 30, 2013:

	Balance at June 30, 2012	Additions	Deductions	Balance at June 30, 2013
Note Payable - OWRB #1	\$ 97,000.00	\$ -	\$ (10,400.00)	\$ 86,600.00
Note Payable - OWRB #2	49,258.33		(3,233.34)	46,024.99
Note Payable - OWRB #3	172,196.92	-	(10,635.18)	161,561.74
Note Payable - CRG, Inc.	58,180.00	-	(58,180.00)	-
Note Payable - CNB	8,383.85	-	(8,383.85)	-
Note Payable - Arvest	-	115,780.00	-	115,780.00
Total Long-Term Debt	<u>\$ 385,019.10</u>	<u>\$ 115,780.00</u>	<u>\$ (90,832.37)</u>	<u>\$ 409,966.73</u>

Debt Services Requirements to Maturity

The annual debt service requirements to maturity, including principal only, for long-term debt, as of June 30, 2013, are as follows:

Year Ending June 30,	OWRB #1	OWRB #2	Total
2014	\$ 11,200	\$ 3,525	\$ 9,683
2015	12,150	3,775	10,483
2016	13,050	4,033	11,383
2017	14,200	4,367	11,383
2018	15,400	4,767	20,167
2019-2023	20,600	25,558	46,158
Total	<u>\$ 86,600</u>	<u>\$ 46,025</u>	<u>\$ 109,257</u>

The annual debt service requirements to maturity, including principal and interest, for loan #3, as of June 30, 2013, are as follows:

OWRB #3: Year Ending June 30,	Principal	Interest	Admin. Fee	Total
2014	\$ 11,016	\$ 4,832	\$ 805	\$ 16,653
2015	11,410	4,494	749	16,653
2016	11,806	4,155	693	16,653
2017	12,241	3,782	630	16,653
2018	12,680	3,406	568	16,653
2019-2023	70,533	10,915	1,819	83,267
2024-2025	31,876	1,227	204	33,307
Total	<u>\$ 161,562</u>	<u>\$ 32,811</u>	<u>\$ 5,469</u>	<u>\$ 199,842</u>

LEFLORE COUNTY CONSOLIDATED RURAL WATER DISTRICT #1
LEFLORE COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

The annual debt service requirements to maturity, including principal and interest, for the Arvest Bank loan, as of June 30, 2013, are as follows:

Arvest Bank Year Ending June 30,	Principal	Interest	Total
2014	\$ 21,929	\$ 3,153	\$ 25,082
2015	22,526	2,556	25,082
2016	23,139	1,942	25,082
2017	23,769	1,312	25,082
2018	24,417	665	25,082
2019-2023	-	-	-
Total	<u>\$ 115,780</u>	<u>\$ 9,629</u>	<u>\$ 125,409</u>

NOTE 7 - FUND EQUITY

As described in Note 1 above, equity is classified as net position and displayed in three components:

1. Net investment in capital assets
2. Restricted
3. Unrestricted

The restricted net position include assets restricted for the repayment of refundable water deposits and the restricted assets listed in Note 4 above.

NOTE 8 - CONTINGENCIES

Litigation

The District currently has no pending litigation.

Federally Assisted Programs

In the normal course of operations, the District participates in various federal or state/loan programs from year to year. The grant/loan programs are often subject to additional audits by agents of the granting or loaning agency, the purpose of which is to ensure compliance with the specific conditions of the grant or loan. Any liability of reimbursement that may arise as a result of these audits cannot be reasonably determined at this time, although it is believed the amount, if any, would not be material.

NOTE 9 - SUBSEQUENT EVENTS

The District did not have any subsequent events through October 3, 2013, which is the date the financial statements were issued, for events requiring recording or disclosure in the financial statements for the year ending June 30, 2013.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Directors
Leflore County Consolidated Rural Water District #1
Leflore County, Oklahoma

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and in accordance with Oklahoma Statutes, the modified cash basis financial statements of the Leflore County Consolidated Rural Water District #1, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which were prepared on the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles, and have issued our report thereon dated October 3, 2013, which was qualified for the improper capital asset recordkeeping.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Leflore County Consolidated Rural Water District #1's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Leflore County Consolidated Rural Water District #1's internal control. Accordingly, we do not express an opinion on the effectiveness of Leflore County Consolidated Rural Water District #1's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Leflore County Consolidated Rural Water District #1's financial statements are free of material misstatement, we performed tests of compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

Purpose of this Report

This report is intended solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Kershaw CPA & Associates, P.C.

Kershaw CPA & Associates, PC

October 3, 2013

LEFLORE COUNTY CONSOLIDATED RURAL WATER DISTRICT #1
LEFLORE COUNTY, OKLAHOMA
SCHEDULE OF WATER RATES AND CUSTOMERS
JUNE 30, 2013

Water Rates

Minimum Charge (includes 1,000 gal)	\$30.00
1,000-2,000 Gallons	\$3.20 per Thousand Gallons
2,000-4,000 Gallons	\$3.30 per Thousand Gallons
4,000-6,000 Gallons	\$3.40 per Thousand Gallons
6,000-8,000 Gallons	\$3.50 per Thousand Gallons
8,000-10,000 Gallons	\$3.70 per Thousand Gallons
10,000 & up Gallons	\$3.75 per Thousand Gallons

Total Gallons Pumped 73,979,700

Total Gallons Sold 51,217,800

Percentage of Loss 30.76%

Customers

The Leflore County Consolidated Rural Water District #1 had 671 customers at the close of this fiscal year.

Unaudited

**LEFLORE COUNTY CONSOLIDATED RWD #1
OWRB NET REVENUE REQUIREMENT
YEAR ENDED JUNE 30, 2013**

COMPUTATION OF NET REVENUE REQUIREMENT

Net Operating Income (Loss)	\$ 161,882
Plus: Non-cash expenses	
Depreciation Expense	23,391
Amortization Expense	-
Total Non-Cash Expenses	<u>23,391</u>
Operating Income Available for Debt Coverage	<u>\$ 185,273</u>
 OWRB #1 Principal Obligation for FYE 6/30/14	 \$ 11,200
OWRB #1 Interest Obligation for FYE 6/30/14 (Variable Rate, Currently 1.560%)	1,348
OWRB #2 Principal Obligation for FYE 6/30/14	3,525
OWRB #2 Interest Obligation for FYE 6/30/14 (Variable Rate, Currently 1.560%)	716
OWRB #3 Principal & Interest Obligation 6/30/14 (Fixed Rate Loan)	<u>16,653</u>
Annual Principal & Interest Obligation	<u>\$ 33,442</u>
 Net Revenue Requirement	 125%
 Operating Income Required for Debt Coverage	 <u>\$ 41,803</u>
 Operating Income Excess (Deficiency)	 <u>\$ 143,470</u>

Unaudited